

ALLIED STORES CORPORATION

Annual Report 1974

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CORPORATION FILE



ALLIED STORES CORPORATION

1114 Avenue of the Americas, New York, N.Y. 10036 Telephone: Area Code 212-764-2000

Directors

LILLIAN BERKMAN

President of General Alarm Corporation,
licensors of patents for security devices
and systems

MILTON P. BROWN

Lincoln Filene Professor of Retailing, Harvard
Graduate School of Business Administration

WALTER E. DENNIS

Financial Consultant

LEONARD H. GOLDENSON

Chairman of the Board of American
Broadcasting Companies, Inc.

HERMAN H. KAHN

Managing Director of Lehman Brothers
Incorporated, brokers and investment bankers

GEORGE C. KERN, JR.

Lawyer, partner in the firm of
Sullivan & Cromwell

CHARLES E. McCARTHY

Vice President and Treasurer,
St. John's University

THOMAS M. MACIOCE

President and Chief Executive Officer
of the Corporation

EUGENE S. NORTHROP

Former Vice Chairman of the Board of
Manufacturers Hanover Corporation

GEORGE A. ROEDER, JR.

Vice Chairman of the Board of
The Chase Manhattan Bank

WILLIAM T. TAYLOR

Former Chairman of the Board of ACF
Industries, Inc., manufacturer and lessor
of railroad freight cars

FRANKLIN A. THOMAS

President of Bedford Stuyvesant Restoration
Corporation, Brooklyn, N.Y., a not-for-profit
community development corporation

LAWRENCE WILKINSON

Consultant to Phelps Dodge Corporation,
copper mining and manufacturing

Directors Emeritus

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CHARLES B. BARNES

PERCY J. EBBOTT

HORACE C. FLANIGAN

W. EARL McCORMICK

MALCOLM P. McNAIR

JAMES H. REEDY

THEODORE SCHLESINGER

EUSTACE SELIGMAN

HAROLD J. SZOLD

President and Chief Executive Officer

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Senior Vice-Presidents

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Division Group Manager

HOWARD E. HASSLER

Finance

ANDREW L. MURPHY

Real Estate

Vice-Presidents

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EDP Services

PATRICK R. EDWARDS

Administration

BENJAMIN FRANK

Legal and Governmental Affairs

MARTIN S. KRAMER

Division Group Manager

JOSEPH M. LESSER

Control and Operations

JOHN J. McGRATH

Executive Development

G. ROBERT MYERS

Credit

ALFRED J. SCHWARZ

Personnel and Labor Relations

LEONARD S. SMITH

President of Allied Stores Marketing Corp.

LEON D. STARR

Division Group Manager

DAVID A. VALENTI

Division Group Manager

JAMES A. WALSH

President of the Bon Marché Division

FRANK E. WILSON

Construction and Store Planning

HERBERT WITTKIN

Division Group Manager

Treasurer

MURRAY J. LATZ

Secretary

ROBERT W. KUHLE

Assistant Vice-Presidents

WILLARD M. SALZER

FRANK J. ZAMBONI

Assistant Treasurers

JOSEPH J. CALANDRO, JR.

PAUL STEIN

Assistant Secretary

FRANK R. D'ELIA

Contents

Financial Highlights	1
Letter to Stockholders	2
1974 in Review	4
Consolidated Financial Statements	10
Accountants' Certificate	16
Condensed Financial Statements of Allied Stores Credit Corporation and Alstores Realty Corporation	17
Five-Year Summary	18
Management's Discussion and Analysis of the Summary of Operations	19
The Allied Stores	20

Fiscal Agents

PREFERRED AND COMMON STOCKS

Transfer Agent & Registrar

Bankers Trust Company

16 Wall Street, New York, N.Y. 10015

DEBENTURES

Trustee for 4¾ % Debentures

Manufacturers Hanover Trust Company

4 New York Plaza, New York, N.Y. 10015

Trustee and Conversion Agent for

4½ % Convertible Debentures

The Chase Manhattan Bank

1 Chase Manhattan Plaza, New York, N.Y. 10015

Buying Office Subsidiaries

Allied Stores Marketing Corp.
New York and Los Angeles

Metasco, Inc.

New York—London—Paris—

Copenhagen—Frankfurt—Florence—

Madrid—Tokyo—Osaka—Seoul

Annual Meeting

The Annual Meeting of Stockholders
will be held at 11 a.m. on
Tuesday, June 17, 1975, in the
Barbizon Plaza Hotel,
106 Central Park South,
New York City. All stockholders
are invited to attend.

FINANCIAL HIGHLIGHTS

	52 Weeks Ended February 1, 1975		52 Weeks Ended February 2, 1974	
	Amount	Per Common Share	Amount	Per Common Share
Sales				
Net sales	\$1,595,740,000		\$1,598,301,000	
Percent increase (decrease)	(0.2%)		7.8%	
Earnings (Note)				
Before federal income taxes	\$ 67,062,000		\$ 59,754,000	
Federal income taxes	30,725,000		26,000,000	
Net	36,337,000	\$ 4.39	33,754,000	\$ 3.98
Net, assuming full dilution from conversion of debentures and exercise of options		3.94		3.60
Disposition of Earnings				
Dividends paid:				
Total	\$ 12,630,000		\$ 12,358,000	
4% Preferred	328,000		431,000	
Common	12,302,000	\$ 1.50	11,927,000	\$ 1.42½
Earnings retained	23,707,000		21,396,000	
Common Stock				
Shares outstanding at end of year	7,950,711		8,344,562	
Equity at end of year	\$ 360,380,000	\$45.33	\$ 343,451,000	\$41.16
Number of Stores				
Department stores	149		142	
Almart-J. B. Hunter stores	12		16	

(Note) Per share amounts are based on 8,199,317 and 8,369,466 shares, the average number of shares outstanding during each respective year, and are after deducting preferred dividends.

TO OUR STOCKHOLDERS

Management is pleased to report that during the fiscal year ended February 1, 1975 sales were \$1,595,740,000 and net earnings for the Corporation reached an all time high. Net earnings amounted to \$36,337,000, or \$4.39 per share of Common Stock after provision for Preferred Stock dividends, compared with \$33,754,000 or \$3.98 per share earned in the prior year. Sales in the fourth quarter were \$529,953,000 and earnings were equal to \$3.17 per share compared with \$3.01 for the quarter ended February 2, 1974. Results for the year and for the fourth quarter ended February 1, 1975 exclude the sales and operations of a number of Almart-J. B. Hunter discount stores which have been or are expected to be discontinued.

The fourth quarter of 1974 saw the American economy suffer one of its most serious reversals in recent history. Inflationary forces, high interest rates, widespread unemployment and inventory accumulations combined to depress corporate earnings. Allied Stores Corporation was in a better position to withstand these adverse developments because it had taken appropriate action during the year to control inventory levels, followed a moderate expansion program and, through an intelligent cash management program, minimized the effect of interest rate escalations. Inventories at year end were \$226,545,000 compared to \$249,632,000 last year, a decrease of \$23,087,000. The increase in total interest expense, despite higher interest rates, was \$1,844,000, or 5.6%.

The growth of the Corporation and its improvement in earnings are also a result of intensified merchandising programs and concentrated efforts to

improve operating profit margins in major departments. Exciting merchandise presentations, intensive sales promotions and space allocation studies are integral parts of these programs. Expansion of and emphasis on those departments which produce the highest sales per square foot and greatest return on investment have resulted in the more profitable soft line and ready-to-wear sales increasing from 66% of total sales in 1970 to 70% in 1974, while sales of hard line durable goods, with lower profit margins, have declined from 34% to 30%.

The Corporation has made progress in its program to reduce the unfavorable impact of unprofitable stores within the Almart-J. B. Hunter Division. Three units were closed in Florida and one in Ohio during 1974. No future expansion is contemplated and management will continue its efforts to improve the overall operating results of this Division.

During 1974 the Corporation opened new stores in Harrisburg, Pennsylvania; Greensboro, North Carolina; Wyoming, Michigan; North Tampa, Florida; Baldwinsville, New York; Indianapolis, Indiana; and converted an Almart unit in Fort Lauderdale, Florida, into a conventional department store unit of Jordan Marsh-Florida. During 1975 new units will be opened in Minneapolis, Minnesota; Dallas and Houston, Texas; Clearwater, Florida; Lafayette, Indiana; and Orange, New Jersey.

A major rebuilding and revitalization program of our Jordan Marsh-Boston downtown store and surrounding area was initiated last year. An international development group plans to develop the surrounding area into a major shopping complex to be known as Lafayette Place. As its part of the program, Jordan's will modernize and update its physical plant. This project, which will take approximately

three years to complete, will assure the continuance of Jordan Marsh as the leading retailer of Boston and New England.

There is great concern about consumer confidence and the state of the economy for 1975. Since the consumer represents the pulse and vitality of this nation, it is our contention that retailing can play an important role in restoring the confidence required to move the nation away from the philosophy of gloom and doom. While 1975 will be a complex and challenging year, we have every confidence that those retailers who present the consumer with desired merchandise representing true value and who operate their companies with disciplined programs for improved return on investment, inventory management and cost control will succeed. It is our opinion that Allied's programs have been formulated and implemented along those lines and we have every expectation that 1975 will reflect further progress in sales and earnings.

In June, 1974, Mrs. Lillian Berkman was elected a Director of the Corporation, the second woman to serve as a Director. The Corporation elected three Senior Vice-Presidents in November, 1974, in line with its development of the management structure: Mr. John T. Cullen, Division Group Manager; Mr. Howard E. Hassler, Finance; and Mr. Andrew L. Murphy, Real Estate.

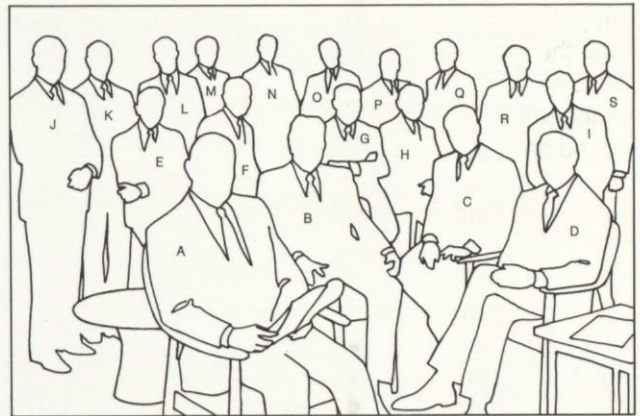
To our employees, who have demonstrated their ability to perform as professional merchants with dedication and discipline, we express our deepest appreciation. We value the cooperation of our vendors who continue to make available to us the finest merchandise, essential to our consumer oriented programs. The guidance and support provided by our Board of Directors and stockholders is a source of constant encouragement.

Respectfully submitted,

Thomas M. Macioce

President

April 30, 1975



The Company's corporate officers, seen at New York headquarters, are: President and Chief Executive Officer, (A) Thomas M. Macioce; Senior Vice-Presidents (B) Howard E. Hassler, (C) Andrew L. Murphy, (D) John T. Cullen; and Vice-Presidents (E) Leon D. Starr, (F) Martin S. Kramer, (G) Leonard S. Smith, (H) Herbert Wittkin, (I) John J. McGrath, (J) Robert M. Bozeman, (K) Frank E. Wilson, (L) Joseph M. Lesser, (M) Benjamin Frank, (N) G. Robert Myers, (O) Patrick R. Edwards; Secretary, (P) Robert W. Kuhl; Treasurer, (Q) Murray J. Latz; and Vice-Presidents (R) Alfred J. Schwarz, (S) James A. Walsh. Absent was Vice-President David A. Valenti.



1974 IN REVIEW

Business

Allied marked its 45th anniversary during 1974 and, at the year's end, the Corporation and its subsidiaries operated 149 department stores and 12 discount stores in 28 states. At its inception in 1929, Allied was comprised of a nucleus of 28 stores in 14 states.

Today, Allied is well-diversified by geographical location, size of store and character of community served, operating stores under different names throughout the United States (see listing on page 20). Allied also operates 7 regional shopping centers. Three of these, Bergen Mall Shopping Center, Paramus, New Jersey, Northshore Shopping Center, Peabody, Massachusetts, and Northgate Shopping Center, Seattle, Washington, are owned. The remainder, operated under varying arrangements, are Shopper's World, Framingham, Massachusetts, and three located in the state of Washington: Columbia Shopping Center in Kennewick, Southcenter Shopping Center in Tukwila, and Tacoma Mall in Tacoma.

Two wholly-owned subsidiaries, Allied Stores Marketing Corp. and Metasco, Inc., provide merchandising research and information and act as merchandising consultants to the stores. Metasco operates foreign buying offices in 9 cities in Europe and the Far East. A specialized staff maintained in the central office in New York City provides research to support major long-range decisions, centrally controls financing, taxes, insurance, real estate and store construction and also lends guidance to the stores in such areas as sales promotion, consumer credit, legal and governmental affairs, and personnel.

Two other subsidiaries support the merchandising operations of the Corporation. Alstores Realty Corporation owns a substantial percentage

of the properties occupied by the stores and finances this real estate through long-term mortgages placed with institutional investors. Allied Stores Credit Corporation purchases instalment and revolving credit accounts from the stores and obtains short-term financing through the use of bank loans and issuance of commercial paper.

Allied's expansion program for the past decade has been concentrated in suburban shopping centers. In 1974 seven department stores, totalling 820,000 square feet, were opened and four Almart—J.B. Hunter stores, with a total of 500,000 square feet, were closed. All of these stores were located in the suburbs. As a result, suburban stores now account for approximately 16.7 million square feet of Allied's total of 29.2 million square feet of space. The 6 new stores planned for 1975, totalling 675,000 square feet, will also be in the suburbs. During the year ended February 1, 1975, 68% of sales were generated from suburban locations versus 32% from downtown locations.

Additionally, a major rebuilding and modernization of the Jordan Marsh store located in downtown Boston has been initiated and is discussed in the Letter to Stockholders. Earnings for the year ended February 1, 1975 reflected a charge before federal income taxes of \$2,000,000 to cover demolition and certain other costs of this project.



Operations

The department store business is seasonal in nature with a high proportion of both volume and earnings being generated in the last three

months of the fiscal year. Comparative figures by quarter (expressed in thousands except for per share amounts) are as follows:

	Year Ended February 1, 1975			Year Ended February 2, 1974		
	Net Earnings		Per Share	Net Earnings		Per Share
	Sales	Dollars		Sales	Dollars	
First Quarter	\$ 338,895	\$ 3,804	\$.45	\$ 342,253	\$ 3,178	\$.36
Second Quarter	354,938	2,345	.27	348,702	1,385	.16
Third Quarter	371,954	4,154	.50	366,422	3,900	.45
Fourth Quarter	529,953	26,034	3.17	540,924	25,291	3.01
Total for year	<u>\$1,595,740</u>	<u>\$36,337</u>	<u>\$4.39</u>	<u>\$1,598,301</u>	<u>\$33,754</u>	<u>\$3.98</u>

Net earnings for the year ended February 2, 1974 reflect a charge of \$1.12 per share (\$.89 in the fourth quarter) for estimated losses on pending disposition of discount stores and a gain of \$.35 per share realized from sales of properties not used in operations. Reference is made to Management's Discussion and Analysis of the Summary of Operations on page 19.

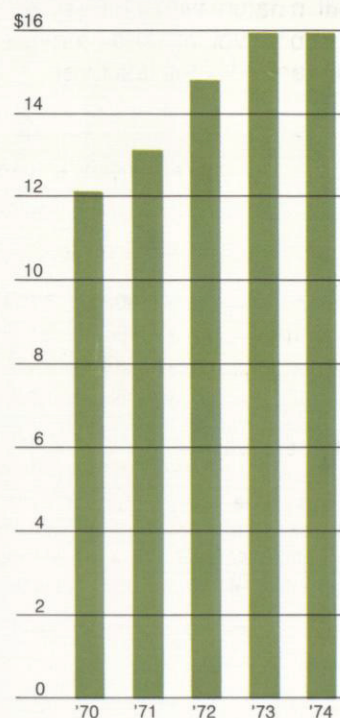
Earnings per share were determined by dividing net earnings, after deduction of dividends on preferred stock, by the average number of shares outstanding during each period. The average number of shares outstanding during the year ended February 1, 1975 was 8,199,317 and for the prior year was 8,369,466. Fully diluted earnings per share of \$3.94 and \$3.60 for the respective years assumed conversion of the Corporation's 4½ % convertible debentures at the beginning of each year and dilution from stock options utilizing the treasury stock method. Under this method, it is assumed that the proceeds from the exercise of such options were used to repurchase the Corporation's common stock at its average daily market price.



Credit sales for the year ended February 1, 1975 constituted 53.7% of total sales, compared with 53.0% for the prior year. This increase was concentrated in revolving credit sales which rose to 33.3% of total sales from 30.3%, while regular charge sales declined to 15.7% from 18.0%, and instalment sales remained about the same. The net provision for losses on customers accounts receivable during the year was .98% of total credit sales, as compared with .75% for the prior year. The increase in the net provision reflected the impact of economic pressures on consumers plus the fact that revolving credit accounts traditionally require higher allowances for possible losses on collection than regular accounts.

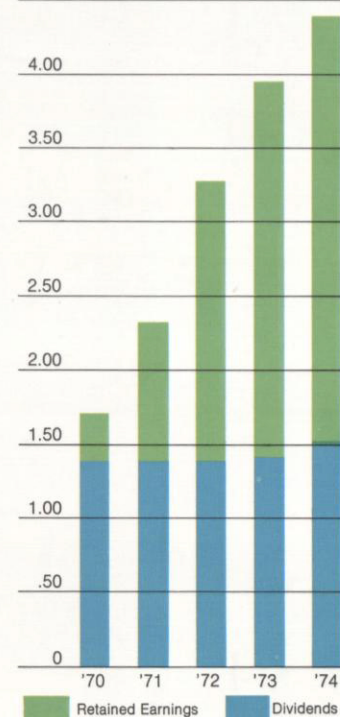
Net Sales

(in hundred millions)

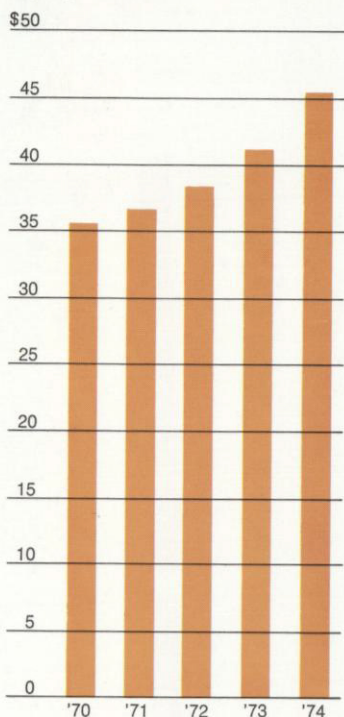


Earnings Per Share of Common Stock

\$4.50



Common Stock Equity Per Share



Financial Position

The Corporation's cash flow during the year improved and its financial position at year-end was strong.

During the year, the Corporation increased its investment (net of dispositions) in property and equipment by \$31,692,000, repurchased 394,000 shares of its Common Stock at an average cost of \$18.61 per share and paid dividends of \$12,630,000 to its stockholders. In addition, through efficient cash management, the Corporation was able to reduce its total borrowings by \$9,804,000.

The Corporation's continuing program of disciplined inventory management, together with a \$6,099,000 increase in the required LIFO reserve (\$2,915,000 in the prior year), resulted in a \$23,086,000 decrease in merchandise inventories at year-end. The ratio of merchandise inventories (before LIFO adjustment) to net sales

decreased to 15.6% as of February 1, 1975 from the 16.6% at February 2, 1974. Inventory shrinkage of 2% of net sales was the same as that experienced in the prior year.

The year-end ratio of current assets to current liabilities remained at 2.2 to 1, and common stockholders' equity (represented by 7,950,711 shares held by approximately 22,500 stockholders) increased to \$45.33 per share, the highest in the Corporation's history.

Market Prices and Dividends

The Corporation's Common Stock and 4% Cumulative Preferred Stock are traded on the New York Stock Exchange (ticker symbol ALS). The range of market prices and cash dividends paid for each quarterly period during the past two years were as follows:

Year Ended February 1, 1975	New York Stock Exchange Market Price				Cash Dividends Per Share	
	Common Stock		Preferred Stock		Common Stock	Preferred Stock
	High	Low	High	Low		
First Quarter	\$24	\$20 ³ / ₄	\$64 ¹ / ₄	\$60 ⁵ / ₈	\$.37 ¹ / ₂	\$1.00
Second Quarter	25 ⁵ / ₈	20 ¹ / ₄	61	60 ⁵ / ₈	.37 ¹ / ₂	1.00
Third Quarter	21 ⁵ / ₈	16 ⁵ / ₈	63	58 ¹ / ₄	.37 ¹ / ₂	1.00
Fourth Quarter	23	15 ¹ / ₄	58 ¹ / ₄	55	.37 ¹ / ₂	1.00
					<u>\$1.50</u>	<u>\$4.00</u>
Year Ended February 2, 1974						
	High	Low	High	Low		
First Quarter	\$34 ¹ / ₈	\$24 ³ / ₈	\$63 ¹ / ₈	\$61	\$.35	\$1.00
Second Quarter	28 ¹ / ₈	22 ¹ / ₂	63	61 ¹ / ₄	.35	1.00
Third Quarter	29 ³ / ₄	23	63	59 ¹ / ₂	.35	1.00
Fourth Quarter	25	19 ³ / ₈	61	60	.37 ¹ / ₂	1.00
					<u>\$1.42¹/₂</u>	<u>\$4.00</u>



Consolidated Statement of Earnings and Retained Earnings

	52 Weeks Ended February 1, 1975	52 Weeks Ended February 2, 1974
Net Sales (including leased departments)	\$1,595,740,478	\$1,598,300,978
Revenues from Non-Merchandising Operations	14,000,694	17,008,101
	1,609,741,172	1,615,309,079
Costs and Expenses		
Cost of goods sold, selling, general and administrative expenses (exclusive of items shown below)	1,380,464,996	1,383,828,563
Taxes, other than federal income taxes	51,630,170	47,544,612
Interest	34,724,815	32,881,552
Rent	39,150,840	37,334,494
Depreciation	23,806,447	23,681,127
Maintenance and repairs	12,902,241	12,285,224
Provision for estimated losses on pending disposition of discount stores.	—	18,000,000
	1,542,679,509	1,555,555,572
Earnings Before Federal Income Taxes	67,061,663	59,753,507
Federal Income Taxes	30,725,000	26,000,000
Net Earnings	36,336,663	33,753,507
<i>(Per share of Common Stock, based on average shares outstanding and after preferred dividends: \$4.39 for 1975 and \$3.98 for 1974; assuming full dilution from conversion of debentures and exercise of options, \$3.94 and \$3.60, respectively)</i>		
Retained Earnings at Beginning of Year	241,757,206	220,361,172
	278,093,869	254,114,679
Cash Dividends		
Cumulative Preferred Stock—\$4.00 per share	328,128	430,998
Common Stock—\$1.50 per share in 1975 and \$1.42½ per share in 1974.	12,301,429	11,926,475
	12,629,557	12,357,473
Retained Earnings at End of Year	\$ 265,464,312	\$ 241,757,206

See notes to consolidated financial statements on pages 13 to 16.

Consolidated Statement of Financial Position

	February 1, 1975	February 2, 1974
Current Assets		
Cash	\$ 18,816,933	\$ 20,807,911
Accounts receivable		
Customers	327,004,707	315,640,172
Suppliers and others	12,271,478	11,512,935
Merchandise inventories	226,545,410	249,631,674
Prepaid expenses	10,808,182	10,390,792
Total Current Assets	595,446,710	607,983,484
Current Liabilities		
Accounts payable	96,971,211	108,862,561
Accrued expenses	48,530,446	45,990,328
Taxes, other than federal income taxes	22,118,422	20,141,505
Federal income taxes		
Current	13,143,321	18,852,034
Deferred	22,968,900	19,301,900
Notes payable of Allied Stores Credit Corporation	59,125,000	49,500,000
Long-term debt due within one year	11,231,373	19,330,780
Total Current Liabilities	274,088,673	281,979,108
NET CURRENT ASSETS	321,358,037	326,004,376
Other Assets	14,203,016	12,651,407
Property and Equipment	423,246,614	415,360,987
	758,807,667	754,016,770
Long-Term Debt	372,084,417	383,413,919
Deferred Federal Income Taxes	19,754,672	18,371,572
STOCKHOLDERS' EQUITY	\$366,968,578	\$352,231,279
Preferred Stock	\$ 6,588,700	\$ 8,780,700
Common Stockholders' Equity		
Common Stock, no par value (authorized 12,000,000 shares)		
Outstanding—amount fixed at \$1.00 per share	7,950,711	8,344,562
Capital surplus	86,964,855	93,348,811
Retained earnings	265,464,312	241,757,206
Total Common Stockholders' Equity	360,379,878	343,450,579
STOCKHOLDERS' EQUITY	\$366,968,578	\$352,231,279

See notes to consolidated financial statements on pages 13 to 16.

Consolidated Statement of Changes in Financial Position

	52 Weeks Ended February 1, 1975	52 Weeks Ended February 2, 1974
Additions		
Net earnings	\$ 36,336,663	\$33,753,507
Depreciation	23,806,447	23,681,127
Increase in deferred federal income taxes	1,383,100	2,017,976
Working capital provided from operations	61,526,210	59,452,610
Disposition of property and equipment	10,318,536	18,595,935
New long-term debt	—	9,702,878
Common Stock issued	4,181	84,563
	<u>71,848,927</u>	<u>87,835,986</u>
Deductions		
Dividends paid	12,629,557	12,357,473
Increase in other assets	1,551,609	744,862
Investment in property and equipment	42,010,610	26,003,541
Reduction in long-term debt	11,329,502	19,379,396
Preferred Stock repurchases	1,642,324	2,348,793
Common Stock repurchases	7,331,664	2,572,724
	<u>76,495,266</u>	<u>63,406,789</u>
Increase (Decrease) in Net Current Assets	<u><u>\$ (4,646,339)</u></u>	<u><u>\$24,429,197</u></u>
Increases (Decreases) in Net Current Assets		
Cash	\$ (1,990,978)	\$ 1,181,198
Accounts receivable	12,123,078	33,986,831
Merchandise inventories	(23,086,264)	13,244,026
Prepaid expenses	417,390	2,476,857
Accounts payable and accrued expenses	9,351,232	(23,698,086)
Taxes, other than federal income taxes	(1,976,917)	618,772
Federal income taxes	2,041,713	1,113,991
Notes payable and current maturities of long-term debt	(1,525,593)	(4,494,392)
Increase (Decrease) in Net Current Assets	<u><u>\$ (4,646,339)</u></u>	<u><u>\$24,429,197</u></u>

See notes to consolidated financial statements on pages 13 to 16.

Notes to Consolidated Financial Statements

Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Allied Stores Corporation and all subsidiaries. Condensed financial statements of the credit subsidiary and of the real estate subsidiaries are presented on page 17.

Inventories. Merchandise inventories are stated at the lower of cost or market determined by the retail inventory method using, as to approximately one third of the inventories, the lifo (last-in, first-out) method. Inventories are stated at \$21,-729,969 in 1975 and \$15,631,277 in 1974 less than if the first-in, first-out basis had been used.

Property and Equipment. Properties are recorded at cost and depreciation is computed on a straight-line basis over the estimated useful lives of the assets, or, in the case of leasehold improvements, over the lives of the respective leases, if shorter. The estimated useful lives for depreciation of the principal properties are: store buildings and warehouses, 40 to 50 years; elevators, escalators and building equipment, 20 years; store and office fixtures and equipment, 10 to 15 years; floor coverings and automotive equipment, 5 years.

Federal Income Taxes. The provision for federal income taxes includes amounts which will not be paid until future years. This deferral results primarily from the use, for tax purposes, of accelerated depreciation and of the instalment method of accounting for sales. The deferral resulting from the latter is included with current liabilities and has been reduced by the tax effect of other timing differences. The use of these timing differences for tax purposes does not affect net earnings. The investment tax credit is accounted for by the flow-through method and is reflected as a reduction in the current federal income tax provision.

Income Taxes

	52 Weeks Ended February 1, 1975	52 Weeks Ended February 2, 1974
The provision for federal income taxes includes the following amounts:		
Currently payable	\$25,675,000	\$28,347,000
Deferred	5,050,000	(2,347,000)
	<u>\$30,725,000</u>	<u>\$26,000,000</u>
Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. The major components are:		
Excess of tax over book depreciation	\$ 1,383,000	\$ 2,018,000
Instalment method of accounting for sales	3,139,000	6,380,000
Estimated losses on pending disposition of discount stores	2,603,000	(8,650,000)
Other	(2,075,000)	(2,095,000)
	<u>\$ 5,050,000</u>	<u>\$(2,347,000)</u>
The effective federal income tax rates were 45.8% and 43.5%, respectively.		
The principal reasons for the variation between the provision at the statutory federal income tax rate and the actual provision are:		
Provision at 48% statutory rate	\$32,190,000	\$28,700,000
Investment credit	(1,250,000)	(1,650,000)
Capital gains and other	(215,000)	(1,050,000)
	<u>\$30,725,000</u>	<u>\$26,000,000</u>

Included in "Taxes, other than federal income taxes" in the Consolidated Statement of Earnings and Retained Earnings are state and local taxes based on income in the amount of \$4,927,000 for the year ended February 1, 1975 (\$3,753,200 for the prior year).

Pending Disposition of Discount Stores

During the year ended February 2, 1974, management decided to sell, sublease or otherwise dispose of a number of the Almart-J. B. Hunter discount stores which had been unprofitable. Accordingly, earnings for that year reflected a charge before federal income taxes of \$18,000,000 (approximately \$1.12 per share after federal income taxes), for estimated losses on pending disposition of such stores. For the year ended February 1, 1975, the net loss before taxes of the Almart-J. B. Hunter discount division was approximately \$9,000,000. Of this amount, \$5,750,000, representing all losses on the liquidation of four stores closed during the year and operating losses (exclusive of central organization and inter-company charges) of the stores discontinued or expected to be discontinued, was charged against the amount previously provided, leaving a balance of \$12,250,000.

Accounts Receivable-Customers

	February 1, 1975	February 2, 1974
Regular accounts	\$ 31,780,141	\$ 38,889,496
Instalment accounts	45,283,058	47,965,209
Revolving credit accounts	256,733,306	234,694,413
	333,796,505	321,549,118
Less allowance for possible losses on collection	6,791,798	5,908,946
	<u>\$327,004,707</u>	<u>\$315,640,172</u>

Property and Equipment—at cost

Land	\$ 59,271,362	\$ 56,196,553
Buildings, improvements and equipment	350,964,664	346,835,856
Store fixtures and equipment	182,670,073	178,103,435
Improvements in progress	22,325,666	12,462,826
	615,231,765	593,598,670
Less accumulated depreciation	191,985,151	178,237,683
	<u>\$423,246,614</u>	<u>\$415,360,987</u>

Short-Term Borrowings and Compensating Balances

Allied Stores Credit Corporation, a wholly-owned subsidiary of the Corporation, obtains short-term financing through the use of bank loans and issuance of commercial paper for periods up to three months. The \$59,125,000 of short-term borrowings at February 1, 1975 consisted of bank loans of \$25,700,000, bearing interest at the bank prime rate of 10% to 10¾%, and of commercial paper of \$33,425,000, with interest rates varying from 7¾% to 10½%.

The maximum amount of bank loans and commercial paper outstanding at any time during the year ended February 1, 1975 aggregated \$127,775,000. The average borrowings outstanding during the year were \$78,914,000 and the average interest rate thereon was 10.8%. The average interest rate was determined by dividing total short-term interest expense by the average borrowings outstanding.

As of February 1, 1975, Allied Stores Credit Corporation and/or Allied Stores Corporation had lines of credit totaling \$305,185,000, extended by 136 banks. In support of these lines and also serving as compensation for account handling functions and other services, the Corporation and all of its subsidiaries maintain average operating cash balances equal to approximately 10% of the lines. There are no legal restrictions on the withdrawal of these funds.

Long-term Debt Payable After One Year

Allied Stores Corporation:

	February 1, 1975	February 2, 1974
Subordinated 4½ % convertible debentures:		
Due October 1, 1981	\$ 3,432,000	\$ 3,436,200
Due September 15, 1992 (annual payments of \$2,000,000 in 1978-1991 and \$22,000,000 due at maturity)	49,947,000	49,947,000
Total subordinated	<u>53,379,000</u>	<u>53,383,200</u>
Unsubordinated:		
4¾ % sinking fund debentures, due November 1, 1976	3,750,000	4,055,000
4½ %-4¾ % notes, due February 1, 1984 (annual payments of \$2,500,000 in 1976-1983 and \$12,500,000 due at maturity)	32,500,000	32,500,000
1 %-5 % notes, due 1976-1995	1,641,157	1,934,482
Total unsubordinated	<u>37,891,157</u>	<u>38,489,482</u>
	91,270,157	91,872,682
7¼ %-7½ % notes of Allied Stores Credit Corporation (\$10,000,000 due annually February 15, 1980-1982)	30,000,000	30,000,000
Notes and bonds of Alstores Realty Corporation and Subsidiaries	250,814,260	261,541,237
	<u>\$372,084,417</u>	<u>\$383,413,919</u>

As of February 1, 1975, notes and bonds of Alstores Realty Corporation and subsidiaries were payable as follows during the next five fiscal years: 1975 — \$10,633,247; 1976 — \$29,698,762; 1977 — \$13,862,405; 1978 — \$21,685,008; 1979 — \$11,162,295 and the balance through 2002. This indebtedness bears interest at the following rates: 3½ %-3¾ %, \$5,770,000; 4 %-4¾ %, \$20,420,266; 5 %-5¾ %, \$79,146,108; 6 %-6¾ %, \$21,474,700; 7¼ %-7½ %, \$26,460,624; 8¼ %-8¾ %, \$17,575,839; 9 %-9¾ %, \$57,110,914; 10 %-10½ %, \$33,489,056. Substantially all of this indebtedness is collateralized by mortgage liens on property and equipment.

The provisions of the long-term debt agreements impose, among other things, limitations with respect to the payment of dividends on Common Stock. Under the most restrictive provision, which relates to net assets, approximately \$139,000,000 of retained earnings at February 1, 1975 was available for the payment of dividends.

The 4½ % convertible subordinated debentures due October 1, 1981 are convertible into shares of Common Stock at \$28 per share; the 4½ % convertible subordinated debentures due September 15, 1992 are convertible at the rate of \$44.50 per share. Debentures so converted may be applied against sinking fund requirements. At February 1, 1975, 1,244,975 shares of Common Stock were reserved for such conversions.

Stockholders' Equity

The Corporation has 446,108 shares of \$100 par value 4% Cumulative Preferred Stock authorized. As of February 1, 1975, there were outstanding 59,887 shares of the 4% Series, with an annual sinking fund obligation of 5,146 shares, and 6,000 shares of the 4% Second Series to be retired on December 1, 1975. The Corporation had retired or was holding in treasury 54,218 shares of the 4% Series to meet future sinking fund requirements.

Changes in Common Stock and Capital Surplus were as follows:

	February 1, 1975		February 2, 1974	
	Common Stock	Capital Surplus	Common Stock	Capital Surplus
Balance, beginning of year	\$8,344,562	\$93,348,811	\$8,441,534	\$94,733,793
Issued under stock option plan			1,516	40,708
Conversion of debentures	149	4,032	1,512	40,827
Repurchase of cumulative preferred stock		549,676		1,006,207
Repurchase of common stock	(394,000)	(6,937,664)	(100,000)	(2,472,724)
Balance, end of year	<u>\$7,950,711</u>	<u>\$86,964,855</u>	<u>\$8,344,562</u>	<u>\$93,348,811</u>

Of the 579,444 shares of Common Stock reserved at February 1, 1975 for issuance to officers and employees under existing stock option plans, 229,444 were under options for purchase at \$23.38 to \$32.13 per share. Of these, 113,127 were exercisable at February 1, 1975. During the year, no options were exercised, options were granted for 101,700 shares at \$23.38 per share and options for 65,302 shares were cancelled. Options are priced at 100% of the fair market value at the date of grant and expire five years from said date.

Retirement and Profit Sharing Program

The Company adopted a new Retirement Benefit & Profit Sharing-Investment Program covering substantially all full-time employees, which became effective January 1, 1974. In accordance with the terms of the Retirement Benefit segment of the Program, the Corporation provided \$7,131,116 during the year ended February 1, 1975 (\$4,850,364 under existing plans during the previous year), including \$1,936,600 for amortization of past service costs over a 30 year period (\$831,858 for the prior year). As of February 2, 1974, the latest valuation date, the unfunded liability for prior service was estimated at \$28,400,000, and the actuarially computed value of vested benefits exceeded the plan's assets by approximately \$6,400,000.

The Profit Sharing-Investment segment of the Program covers all employees who elect to contribute to the plan. The Corporation's contribution to the plan is based on the percentage of net earnings to net sales. For the year ended February 1, 1975, such contribution amounted to \$1,600,000 (\$1,325,000 under the previous year's plan).

The Employee Retirement Income Security Act of 1974 will require amendments to the Program. It is estimated that the effect of these changes on the annual pension costs in 1976, on the unfunded liability for prior service and on the unfunded vested benefits will not be material.

Costs and Expenses

Costs and expenses may also be presented for the respective years as follows: Cost of goods sold, including buying and occupancy costs \$1,129,479,357 and \$1,154,040,712; selling, general and administrative expenses \$378,475,337 and \$368,633,308; interest \$34,724,815 and \$32,881,552.

Rentals and Lease Commitments

52 Weeks Ended
February 1, 1975

52 Weeks Ended
February 2, 1974

Rent expense consists of the following:

Minimum rentals:

Noncapitalized financing leases	\$21,744,708	\$20,045,294
Other leases	11,678,563	11,778,937

Percentage rentals:

Noncapitalized financing leases	3,628,189	3,396,127
Other leases	2,099,380	2,114,136
	<u>\$39,150,840</u>	<u>\$37,334,494</u>

Future minimum rentals under existing noncancelable leases are as follows:

Fiscal Periods	Noncapitalized Financing Leases	Other Leases	Total
1975	\$ 22,494,000	\$ 4,367,000	\$ 26,861,000
1976	22,140,000	4,012,000	26,152,000
1977	21,752,000	3,799,000	25,551,000
1978	21,323,000	3,769,000	25,092,000
1979	20,628,000	3,439,000	24,067,000
1980-1984 (5 year total)	98,662,000	15,460,000	114,122,000
1985-1989 (5 year total)	87,964,000	13,138,000	101,102,000
1990-1994 (5 year total)	80,016,000	9,734,000	89,750,000
1995 and thereafter (total)	123,823,000	1,557,000	125,380,000

Most of the leases provide for payment by the lessee of real estate taxes and other expenses and, in certain instances, increased amounts based on percentage of sales.

The present values of minimum lease commitments under noncapitalized financing leases and the range and weighted average of the interest rates used in the computation thereof are as follows:

	Interest Rates		February 1, 1975	February 2, 1974
	Range	Weighted Average		
Land	4%-9%	5½ %	\$ 19,794,000	\$ 21,700,000
Buildings	4%-9½ %	6½ %	186,902,000	184,700,000
Store fixtures and equipment	5½ %-9½ %	8%	15,182,000	13,200,000
			<u>\$221,878,000</u>	<u>\$219,600,000</u>

If all noncapitalized financing leases were capitalized, related assets (including land property rights) were amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, the effect on net earnings after federal income taxes would have been to reduce net earnings by approximately \$1,600,000 for the year ended February 1, 1975 (\$1,700,000 for the year ended February 2, 1974). The amounts of amortization and interest costs included in these computations were \$9,300,000 and \$14,300,000, respectively, for the year ended February 1, 1975 and \$8,500,000 and \$13,500,000, respectively, for the prior year.

Accountants' Certificate

Stockholders and Board of Directors Allied Stores Corporation, New York, N.Y.

We have examined the consolidated statement of financial position of Allied Stores Corporation and subsidiaries as of February 1, 1975 and February 2, 1974 and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Allied Stores Corporation and subsidiaries at February 1, 1975 and February 2, 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.
1633 Broadway, New York, N.Y. 10019
April 15, 1975

Touche Ross & Co.
Certified Public Accountants

Condensed Financial Statements of Subsidiaries of Allied Stores Corporation

Allied Stores Credit Corporation

	February 1, 1975	February 2, 1974
Customers accounts purchased from Allied Stores Corporation	\$151,790,505	\$132,673,892
Amounts withheld pending collection and unearned discount	(19,482,359)	(16,773,158)
Cash and other assets	420,263	214,959
Total Assets	\$132,728,409	\$116,115,693
Notes payable	\$ 59,125,000	\$ 49,500,000
Accrued taxes and interest.	944,571	2,682,658
Advances from Allied Stores Corporation	23,055,189	17,839,915
Long-term debt, subordinated to notes payable . .	30,000,000	30,000,000
Equity of Allied Stores Corporation	19,603,649	16,093,120
Total Liabilities and Equity	\$132,728,409	\$116,115,693
	52 Weeks Ended February 1, 1975	52 Weeks Ended February 2, 1974
Finance service charge income	\$ 18,341,193	\$ 15,035,118
Expenses		
Interest	11,530,824	9,356,676
Other	299,840	272,032
Federal income taxes . . .	3,000,000	2,500,000
	14,830,664	12,128,708
Net Earnings	\$ 3,510,529	\$ 2,906,410

Alstores Realty Corporation and Subsidiaries

	February 1, 1975	February 2, 1974
Property and equipment . . .	\$320,129,950	\$323,127,995
Cash and other assets	10,531,629	10,373,885
Total Assets	\$330,661,579	\$333,501,880
Accounts payable and accrued expenses	\$ 16,901,766	\$ 17,359,939
Notes and bonds payable . .	261,447,507	277,805,115
Advances from Allied Stores Corporation	16,439,944	5,171,302
Equity of Allied Stores Corporation	35,872,362	33,165,524
Total Liabilities and Equity	\$330,661,579	\$333,501,880
	52 Weeks Ended February 1, 1975	52 Weeks Ended February 2, 1974
Rental income, primarily from affiliates	\$ 47,375,084	\$ 46,195,233
Gain on disposition of properties	—	4,228,045
	47,375,084	50,423,278
Expenses		
Interest	20,092,522	20,756,598
Depreciation	13,256,528	13,201,389
Taxes, other than federal income taxes .	3,419,351	2,789,879
Rent	3,636,134	3,368,848
Other	1,988,711	941,639
Federal income taxes . . .	2,275,000	3,680,000
	44,668,246	44,738,353
Net Earnings	\$ 2,706,838	\$ 5,684,925



Allied Stores Corporation and Subsidiaries

Five-Year Summary *Dollars in Thousands (Except Per Share Amounts)*

Operations	1974	1973	1972
Net sales	\$1,595,740	\$1,598,301	\$1,482,955
Revenues from non-merchandising operations	14,001	17,008	12,767
Cost of goods sold, including buying and occupancy costs	1,129,479	1,154,041 ⁽¹⁾	1,060,752
Selling, general and administrative expenses	378,475	368,633	354,860
Interest expense	34,725	32,881	29,530
Earnings before federal income taxes	67,062	59,754	50,580
Federal income taxes	30,725	26,000	22,540
Net earnings	36,337	33,754	28,040
 Per Share of Common Stock			
Earnings	\$ 4.39	\$ 3.98 ⁽¹⁾	\$ 3.27
Dividends	1.50	1.42½	1.40
Common stockholders' equity	45.33	41.16	38.33
 Financial Position			
Net current assets	\$ 321,358	\$ 326,004	\$ 301,575
Property and equipment (net)	423,247	415,361	431,635
Long-term debt payable after one year			
Allied Stores Corporation	91,270	91,873	93,424
Allied Stores Credit Corporation	30,000	30,000	30,000
Alstores Realty Corporation	250,814	261,541	269,666
Preferred Stock	6,589	8,781	12,136
Common stockholders' equity	360,380	343,451	323,536
 Number of Stores			
Department stores	149	142	136
Almart-J. B. Hunter stores	12	16	17

(1) Includes \$18,000,000 provision for estimated losses on pending disposition of discount stores, equal to \$1.12 per share of Common Stock.

Copies of the Corporation's Annual Report to the Securities and Exchange Commission on Form 10-K will be available to stockholders after May 15, 1975. Requests should be addressed to Allied Stores Corporation, Attention: Secretary, 1114 Avenue of the Americas, New York, N.Y. 10036.

1971	1970
\$1,311,776	\$1,212,151
12,980	12,919
947,566	886,291
312,915	285,773
28,470	27,255
35,805	25,751
15,600	10,950
20,205	14,801
\$ 2.35	\$ 1.71
1.40	1.40
36.48	35.51
\$ 261,356	\$ 225,452
429,129	433,699
98,560	106,721
272,818	244,261
13,042	16,042
306,773	295,209
133	122
16	14

Management's Discussion and Analysis of the Summary of Operations

During the last five fiscal years, the Corporation experienced a steady growth in net earnings from \$14,801,000 in 1970 to the record \$36,337,000 in 1974.

Significant changes that affected net operating results during the last two years are discussed below.

1973 earnings reflected an \$18,000,000 charge (before federal income taxes) for estimated losses on the pending disposition of certain Almart-J. B. Hunter discount stores. Further information regarding this provision is set forth in a note to consolidated financial statements on page 13. After absorbing this provision, 1973 net earnings increased 20.4% over those of 1972 due to the increase in sales, slightly higher gross margin realized on sales and effective control of expenses.

1974 operating results excluded the sales and operations of those Almart-J. B. Hunter stores which have been or are expected to be discontinued. If the sales of such units also were eliminated from the 1973 net sales, the Corporation would have reported a sales increase of 3.6% for 1974 rather than a 0.2% decline. Reference is made to the footnote on pending disposition of discount stores on page 13.

Revenues from non-merchandising operations decreased 17.7% in 1974 after increasing 33.2% in 1973.

Included in these revenues, in addition to rentals from real estate operations, are gains realized from sales of properties not used in operations. Such gains (before federal income taxes) were \$1,314,000 in 1972, \$4,228,000 in 1973 and none in 1974, and were the primary reasons for the percentage fluctuations in these revenues.

Interest expense increased 11.3% in 1973 and 5.6% in 1974, due to sharply increasing rates during both years. However, the effects of the rate increases were partially offset through reduced borrowings.

Variations in the provision for federal income taxes and in the effective tax rates were due to increases in earnings from operations as well as changes in capital gains and the investment tax credit. Reference is made to the footnote on income taxes on page 13.

THE ALLIED STORES

161 stores total 29,180,000 square feet of gross store area
(gross store area shown below in thousands of square feet)

NEW ENGLAND

Jordan Marsh, (10 stores total 4097)

Massachusetts:

Boston	1,699	Malden	87	Portland, Me.	202
Braintree	311	Peabody	371	Bedford, N.H.	187
Burlington	255	Worcester	310	Warwick, R.I.	326
Framingham	349				

Bon Marché, Lowell, Massachusetts, 100

Read's, Connecticut, (3 stores total 559)

Bridgeport	165	Danbury	175	Trumbull	219
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MID-ATLANTIC

Dey Brothers, Syracuse, New York, (4 stores total 621)

Syracuse	306	Camillus	121
Baldwinsville	50	Shoppingtown	144

Gertz, Long Island, New York, (6 stores total 1574)

Jamaica	560	Flushing	279	Hicksville	307
Bayshore	155	Great Neck	72	Massapequa	201

Stern's, New Jersey, (4 stores total 950)

Paramus	339	Willowbrook	278
Wayne	56	Woodbridge	277

Pomeroy's, Pennsylvania, (13 stores total 1967)

Harrisburg Area:		Wilkes-Barre Area:			
Harrisburg	201	Wilkes-Barre	135	Easton	101
Camp Hill	126	WyomingValley	159	Lebanon	47
Colonial Park	137	Wyoming	61	Levittown	241
Willingboro, N.J.	175	Wilmington, Del.	181	Pottsville	79
				Reading	324

Troutman's, Pennsylvania, (7 stores total 483)

Butler	56	Indiana	47	New Castle	48
Connellsville	54	Latrobe	47	Washington	78
Greensburg	153				

SOUTHEAST

Cain-Sloan, Nashville, Tennessee, (3 stores total 642)

Nashville	366	Green Hills	127	Rivergate	149
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Jordan Marsh, Greensboro, N.C., (2 stores total 267)

Greensboro	134	Four Seasons	133
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Levy's of Savannah, Georgia, 108

Jordan Marsh, Florida, (11 stores total 2180)

Miami	395	Lauderhill	134	North Orlando	159
North Miami	244	Hollywood	152	Pompano	84
Dadeland	215	Merritt Island	131	West Palm Beach	181
Ft. Lauderdale	255	Orlando	230		

Maas Brothers, Florida, (13 stores total 1887)

Tampa Area:

Tampa	191	Bradenton	112	Sarasota	141
North Tampa	141	Clearwater	168	St. Petersburg Area:	
West Shore	237	Fort Myers	129	St. Petersburg	276
Gandy	54	Gainesville	112	Tyrone Square	163
Northgate	18	Lakeland	145		

MIDWEST

Mabley & Carew, Ohio, (5 stores total 689)

Cincinnati area:

Cincinnati	341	Swifton	150	Middletown	40
Beechmont	117	Western Hills	41		

Polsky's, Ohio, (3 stores total 607)

Akron area:

Akron	408	Summit Mall	132	Canton	67
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Wren's, Springfield, Ohio, (2 stores total 186)

Springfield	160	Upper Valley	26
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Field's, Jackson, Michigan, 148

Hardy-Herpolsheimer, Muskegon, Michigan, 112

Herp's, Grand Rapids, Michigan, (2 stores total 403)

Grand Rapids	309	Wyoming	94
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Block's, Indiana, (8 stores total 1125)

Indianapolis area:

Indianapolis	497	Southern Plaza	130	Bloomington (2)	23
Glendale	167	Washington Sq.	131	Kokomo	21
Lafayette Sq.	156				

Donaldson's, Minnesota, (6 stores total 1549)

Minneapolis Area:

Minneapolis	587	Rosedale	173	Rochester	67
Brookdale	170	Southdale	173	St. Paul	379

Black's, Waterloo, Iowa, (3 stores total 359)

Waterloo	264	Crossroads	39	Cedar Falls	56
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Heer's, Springfield, Missouri, 163

SOUTHWEST

Joske's, Texas, (9 stores total 2065)

Houston Area:		San Antonio Area:			
Gulfgate	205	San Antonio	552	Austin	206
Northline	161	Las Palmas	79	Beaumont	137
Post Oak	308	North Star	214		
Town & Country	203				

Titche's, Dallas, Texas, (8 stores total 1402)

Dallas	456	North Park	252	Wynnewood	86
Irving Mall	187	Preston Forest	117	Arlington	51
Lochwood	89	Town East	164		

Muller's, Lake Charles, Louisiana, 118

NORTHWEST

Bon Marché, Washington, (11 stores total 2390)

Seattle Area:					
Seattle	878	Everett	80	Tacoma	257
Northgate	303	Kennewick	107	Walla Walla	55
Tukwila	260	Longview	70	Yakima	110
Bellingham	57	Spokane	213		

Bon Marché, Idaho, (5 stores total 306)

Boise	113	Nampa	60
Idaho Falls	46	Twin Falls	40
Lewiston	47		

Bon Marché, Oregon, (2 stores total 130)

Eugene	98	Pendleton	32
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Bon Marché, Ogden, Utah, 155

Missoula Mercantile, Missoula, Montana, 95

Paris of Montana, Great Falls, 85

ALMART—J. B. HUNTER DIVISION, (12 stores total 1658)

Albany, N.Y.	143	Wilmington, Del.:	Knoxville, Tenn.	124	
Rochester, N.Y.:		Kirkwood	156	Memphis, Tenn.:	
Greece	148	Concord	124	Chickasaw	154
Irondequoit	133	Norfolk, Va.	157	Frayser Blvd.	133
Bethlehem, Pa.	120	Louisville, Ky.	133	Whitehaven	133





ALLIED STORES CORPORATION
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